



## Pricing Appetite Growing

Almarai reported -12% Y/Y decline in earnings with SAR 0.58 EPS, inline with our SAR 0.59 estimate. In investor call yesterday, the Company signaled some positive indicators namely, stabilizing F&B market, growing appetite for product price increase across UHT and poultry and higher free cashflow in the short- to medium term. Management plans to tackle upcoming 50% tax on sugary drinks by greater adoption of non-added sugar portfolio. In our view, domestic juice demand may further moderate however regional markets may offset some impact. We maintain Buy and SAR 61 target price, representing 18.5x 2020E EV/EBITDA on Almarai's resilience to counter cost challenges.

### Fresh milk market continues to shrink

Total revenues gained +2.6% Y/Y to SAR 3,767 mln, slightly ahead of our SAR 3,698 mln estimate, as poultry continued to perform well (+21% Y/Y) and contributing 80% of growth. Management expects to reach full poultry capacity in 3Q to deliver 10-12% revenue growth next year. Meanwhile juice segment remained under pressure as consumers switch to lower-priced alternatives. In December, KSA is expected to introduce 50% tax on sugary drinks (applied on retail price) which could further moderate demand. Almarai aims to mitigate impact by raising non-added sugar offerings to product mix. Company reports indicate market growth across majority of food segments, however fresh milk contracted -1.5%. Management feels that they are on better footing to manage fresh milk inventory – however no clear indication provided of a turnaround.

### Gross margin may get relief from price increase

Gross margin was pinched by gradual uptick in imported alfalfa, which may take another 4-6 quarters to drain local stock build-up. However, discounting appears to be easing on UHT as prices are +8-10% from last year (c. SAR 3.5-3.8 / liter). Management feels that prices have a long way to rise but focus will shift to improving margins even if that means sacrificing volume. Second, as early as next year, poultry prices may start to rise as segment growth shifts to a combination of price-volume vs purely volume in the ramp-up phase. Our sense is that appetite for price increases is growing across product categories – setting up crucial test for brand loyalty.

### Capex optimized to free cash

Net income of SAR 583 mln (-12% Y/Y) was slightly below our SAR 588 mln forecast. In 2H19, we see scope for improved earnings performance driven by poultry and stabilization in juice. Capex for the year is targeted at SAR 2.4-2.5 bln (mostly maintenance), reflecting tighter market conditions. Free cashflow is expected to further improve in the short- to medium term, which in our view could ease debt burden in the coming quarters (current net debt-to-EBITDA 3.4x).

SAR mln	2Q19	2Q19E	2Q18	Y/Y Chg	1Q19	Q/Q Chg	% Variance
Sales	3,767	3,698	3,672	2.6%	3,307	13.9%	1.9%
Dairy & juice	2,785	2,722	2,806	-0.8%	2,332	19.4%	2.3%
Bakery	395	411	422	-6.4%	421	-6.2%	-3.8%
Poultry	527	493	437	20.7%	500	5.4%	6.8%
Others	61	72	66	-7.5%	54	13.0%	-15.1%
Gross profit	1,467	1,476	1,449	1.3%	1,162	26.2%	-0.6%
Gross margin	38.9%	39.9%	39.4%		35.1%		
EBITDA	1,097	1,083	1,171	-6.3%	803	36.6%	1.3%
EBITDA margin	29.1%	29.3%	31.9%		24.3%		
Operating income	739	721	764	-3.4%	481	53.6%	2.4%
Operating margin	19.6%	19.5%	20.8%		14.5%		
Net income	583	588	661	-11.9%	336	73.4%	-0.9%
Net margin	15.5%	15.9%	18.0%		10.2%		
EPS (SAR)	0.58	0.59	0.66	-11.9%	0.34	73.4%	

SAR 61

Buy

12-Month Target price

Recommendation

### Stock Details

Last Close Price	SAR	55.50
Upside to target	%	18.4
Market Capitalization	SAR mln	51,500
Shares Outstanding	mln	1,000
52-Week High	SAR	61.00
52-Week Low	SAR	40.80
Price Change (YTD)	%	7.3
3-Mth ADTV	thd	853
EBITDA 2019E	SAR mln	4,001
Reuters / Bloomberg	2280.SE	ALMARAI AB

### SAR mln

### 2018 2019E 2020E

Revenues	13,723	13,689	13,766
Gross Margin	40%	40%	39%
EBIT	2,461	2,550	2,546
Operating Margin	17.9%	18.6%	18.5%
Net Income	2,009	2,100	2,119
Net Margin	14.6%	15.3%	15.4%
Attr EPS (SAR)	1.95	2.10	2.12
DPS (SAR)	0.85	1.00	1.00

### Price Multiples

### 2018 2019E 2020E

P / E	26.4x	24.5x	24.3x
EV / EBITDA	17.0x	16.2x	16.1x
P / S	3.8x	3.8x	3.7x
P / B	3.7x	3.4x	3.2x

### 1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

Asim Bukhtiar, CFA

abukhtiar@fransicapital.com.sa

+966 11 282 6844

## Research and Advisory Department

---

### Rating Framework

#### BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

#### HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

#### SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

### Saudi Fransi Capital

Call Center | 800 125 9999

[www.sfc.sa](http://www.sfc.sa)

Commercial Registration | 1010231217

### Research and Advisory

P.O. Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh

[research&advisory@fransicapital.com.sa](mailto:research&advisory@fransicapital.com.sa)

## Disclaimer

---

This report is prepared by Saudi Fransi Capital ("SFC"), a fully-fledged investment firm licensed by the Capital Market Authority (CMA) to provide investment banking, asset management, securities brokerage, research, and custody services. SFC, and its affiliate, might conduct business relationships with the company that is subject of this report and/ or own its security.

This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report.

This report is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This report is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report is not intended to take into account any investment suitability needs of the recipient. In particular, this report is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this report. SFC strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this report take into account both risk and expected return.

To the maximum extent permitted by applicable law and regulation, SFC shall not be liable for any loss that may arise from the use of this report or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this report may not be realized. All opinions and estimates included in this report constitute SFC's judgment as of the date of production of this report, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than what he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this report may be reproduced without the written permission of SFC. Neither this report nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this report should make themselves aware of, and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

### **Saudi Fransi Capital (Closed Joint Stock Company owned by Banque Saudi Fransi)**

C.R. 1010231217

Paid Up Capital 500,000,000 SR – Capital Market Authority 11153-37

Head Office

8092 King Fahd Road | Riyadh 12313-3735 | Kingdom of Saudi Arabia

Mailing Address:

P.O Box 23454

Riyadh 11426

Tel: +966 11 282 6666 | Fax: +966 11 282 6667

**800 124 3232 | [www.sfc.sa](http://www.sfc.sa)**